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Weekly Commentary, Selected Financial Data, and Business Indicators

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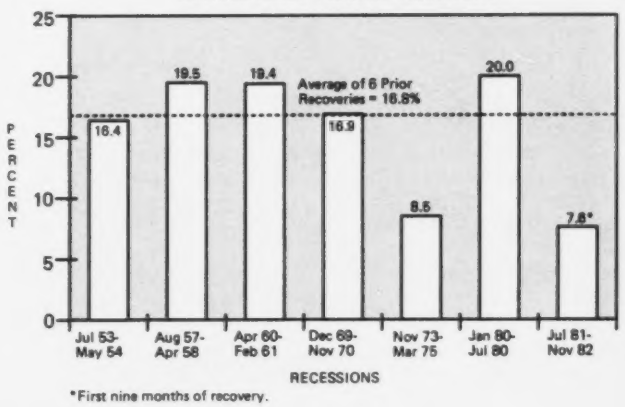
Corporate Illiquidity In Remission . . .

One of the more positive developments stemming from the current business recovery is the strong snapback in corporate profits. With sales gathering momentum, operating costs slashed, productivity improving and idle capacity diminished, businessmen now find themselves enjoying one of the largest earnings surges of the postwar era. And with earnings bolstered, corporate cash flow has begun to outpace business outlays for inventories, plant and equipment. This has dampened corporate borrowing needs, eased credit market pressures and enabled corporate America to begin the lengthy process of repairing badly worn business balance sheets. For after deteriorating almost nonstop since the mid-1970s, some progress has been made in restoring corporate financial health—holding out the promise that a good chunk of next year's anticipated upturn in capital spending may be financed internally, and the long-feared clash of Federal and private borrowings deferred.

This would not have been possible in the absence of a healthy rebound in corporate profits. Before-tax corporate profits, for example, rose by a huge $58 billion, or almost 34 percent, during the six months ending September 30, to a seasonally adjusted $227 billion annual rate. While still running somewhat below early 1980 levels, this two-quarter surge has not only reversed just about all of the drop in profits which occurred between the third quarter of 1981 (when the recession began) and end-1982, it was also the largest six-month increase in earnings since early 1950—when before-tax earnings rose 46 percent during that year's middle six months. During the earlier period, however, rising inventory profits accounted for almost one-half of the overall profits gain, compared with less than one-third over the two most recent quarters. After-tax earnings have soared, too. They rose $34 billion, or 31 percent, during the April-September, 1983 period.

With earnings spiking higher, and depreciation allowances enhanced as a result of the Economic Recovery Tax Act of 1981, corporate cash flow has rebounded vigorously. During the first three quarters of this year, cash flow was running at an annual rate of $272 billion, 13 percent higher than a year ago. At this level, not only was cash flow equivalent to just about 8½ percent of gross national product, well above the 7½ percent of GNP average which has prevailed during the first year of recovery from the preceding six postwar recessions, but it exceeded business capital spending for the first time since 1975—by a rate of almost $16 billion, or six percent. This was the widest margin in the postwar era.

U.S. NONFINANCIAL CORPORATE CREDIT DEMANDS AS A % OF TOTAL FUNDS RAISED IN CREDIT MARKETS DURING FIRST YEAR OF RECOVERY



*First nine months of recovery.

. . . Blunts The Effects . . .

Prospects for sharply higher corporate earnings set the stage for the second major improvement in business finance in recent months: namely, the strengthening of its capital base. With debt instrument yields declining, and buyers eager to participate in the expected earnings-driven appreciation of share prices, net new stock issues surged. They ran at a $31 billion annual pace over the last three quarters, accounting for a record 41 percent of all external funds raised by corporate America, and dwarfing by far the previous record of 32 percent set in 1975. In recent quarters, in fact, nonfinancial corporations have been adding almost $1 of equity to their balance sheets for each $1.50 of debt—a long overdue development and a significant reversal, considering that net new stock issues were virtually nil over the preceding five years.

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With business flush with funds either generated internally, arising from new equity issues, or bond market offerings, businessmen undertook a third major step toward improving financial health. They have used these funds both to retire some short-term debt, as well as to accumulate financial assets. The protracted rise in bank loans and commercial paper outstanding was reversed in fall 1982. With C & I loans trimmed by about 2½ percent over the last year, and commercial paper down by 20 percent, total short-term business credit outstanding now stands about 6½ percent below its third quarter, 1982 peak. This, in turn, has bolstered such key liquidity indicators as relative maturity and debt-to-equity.

Furthermore, corporations have been aggressively building their liquid asset reserves. Over the past nine months, holdings of such liquid assets as bank deposits and Treasury securities have risen by about $30 billion, providing a modest cushion with which to finance a portion of contemplated capital expenditures internally, not to mention pay off more short-term debt if necessary.

. . . Of Washington's Deficit

All of which is not to say that corporate illiquidity has disappeared entirely. Far from it. Corporate balance sheets still carry $3.60 of debt for each $1 of equity (compared with a 2:1 ratio in 1976), and interest expenses related to this debt are still

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/23/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.658	+ 2.019	+13.514
Loans to Depository Inst.	.815	– .209	+ .348
Float	1.233	– .808	– 1.098
Total Reserve Bank Credit	168.763	+ .509	+11.898
Treasury Deposits with Federal Reserve Banks	2.441	– .766	– .430
Currency Outside Banks	149.325	– 1.013	–13.642
Member Bank Reserves:			
Required	37.983	+ .586	– 2.869
Excess (Deficiency)	.408	– .245	+ .084
Total Reserves Held	38.391	+ .341	– 2.785
Net Borrowed Reserves	.280	+ .025	+ .369
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.712	+ 1.595	+ 9.171

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	519.3	+ 0.6‡	+ 9.4‡
M2 (October '83)	2,161.4	+ 6.6	+ 12.0
M3 (October '83)	2,561.1	+ 8.1	+ 8.9
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 12/2/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.65%	8.75%	9.00%
* Federal Agencies	8.90	9.44	9.83
* Project Notes—Taxfree (46% Taxable Equivalent)	9.63	10.10	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.40	9.60	10.05

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.10%	Jan.	9.20%
15- 29 days	9.10	Feb.	9.20
30- 59 days	9.13	Mar.	9.20
60- 89 days	9.15	Apr.	9.25
90-179 days	9.15	May	9.25
180-239 days	9.10	Jun.	9.20
240-270 days	9.10		

‡Industrial Paper—Prime			
30- 89 days	9.15%	†Federal Funds Effective Rate	9.50%
90-120 days	9.15		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,360	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.7	9.7	– 1.0
Change in Consumer Prices (new series)*	Oct '83	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Nov '83n	102,671	101,928	99,136
Unemployment as % of Civilian Labor Force†	Nov '83n	8.4%	8.8%	10.7%
Personal Income*	Oct '83	$ 2,819	$ 2,786	$ 2,618
Leading Indicators Composite Index (1967=100)†	Oct '83n	161.8	160.5r	138.6
Industrial Production Index (1967=100) †	Oct '83	154.8	153.6	135.7
Net Change in Consumer Installment Credit †	Sep '83	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Oct '83n	–$ 8.97	–$ 5.81	–$ 5.26
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Oct '83	1,608	1,672	1,142
New Construction Expenditures*	Oct '83n	$ 269.5	$ 276.4r	$ 234.1
Total Business Inventories †	Sep '83	$ 513.8	$ 510.4	$ 521.0
Total Business Sales †	Sep '83	$ 380.0	$ 374.4	$ 342.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

absorbing more than 20 cents of every $1 of cash flow generated (about the same as in 1976). So, too, despite four straight quarterly declines in the ratio of short-term to total debt, almost one-half of all corporate liabilities are still of short duration. This suggests that any upturn in short-term interest rates could quickly place the corporate sector flat on its back again.

But what the improvement in corporate finances has done is presented the Treasury and, by extension, the economy with a window of opportunity in which the enormous Federal budget deficit could be financed without unduly disrupting either the pattern of interest rates or the Federal Reserve's inflation-fighting monetary policy. With cash flows rising strongly, equity positions bolstered and outstanding short-term debt reduced, corporate America has not only begun to put its finances in order, but has made an important contribution to the sustainability of the recovery. As shown in the chart on page 1, diminished corporate borrowings accounted for a smaller percentage of total credit market borrowings during the first three quarters of this year than during any other first recovery year from the preceding six postwar recessions. By providing some elbow room to the Treasury, this was sufficient to forestall the intense credit market pressures which could have arisen as a result of Washington's ongoing profligacy. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/16/83)	87,417	– 900	–54,640
New York City (11/16/83)	18,015	– 128	–19,520
Commercial Paper (11/16/83)	182,729	+ 1,789	+13,885*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/16/83)	216,742	– 1,922	– 131
New York City (11/16/83)	58,314	– 373	– 3,000

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/16/83)	522,329	+ 243	+19,140
New York City (11/16/83)	120,971	+ 1,172	+ 547

Financial Markets

	Friday 12/2/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.25%	+ .10	+ 1.13
180-Day Bills†	9.70	+ .20	+ .97
Longest Bills†	10.00	+ .15	+ 1.00
Recent Issues:			
10½s 10/31/85	10.70	+ .10	
11⅛s 9/30/87	11.28	+ .18	
11¾s 11/15/93	11.75	+ .20	
12s 8/15/13	11.78	+ .14	
Municipals:			
Bond Buyer–20 Bond Index* (12/1/83)	9.82%	+ .08	– .41
Blue List Total ($ Million)	$1,600	– $ 26	+ $ 76
30-Day Visible Supply ($ Million)	$4,208	– $466	+ $142
Total	$5,808	– $492	+ $218
Corporates:			
Moody's Aa Composite (12/1/83)	12.58%	– .02	+ .10
30-Day Visible Supply ($ Million)	$1,130	+ $580	– $ 70
Stocks:			
Dow-Jones Averages:			
Industrials	1,265.24	– 12.20	+ 233.88
Transportation	605.29	– 5.14	+ 159.92
Utilities	134.87	– 2.65	+ 18.13
65 Stocks	507.59	– 5.33	+ 103.92
Standard and Poor's 500 Stocks	165.44	– 1.74	+ 26.75
N.Y.S.E. Composite Index	95.66	– .89	+ 15.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,080	+ 4,782	+ 17,698

* 46% Taxable equivalent 18.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/2/83	Week Ago
Overnight	9.25%	9.19%
1 month	9.63	9.31
3 month	9.75	9.69
6 month	10.00	9.88
1 year	10.31	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.55%
Long Term (7 to 15 yrs.)	11.65	11.65

FOREIGN EXCHANGE SPOT RATES New York Opening (12/2/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01823	54.85
Canada	.8046	1.2429
Denmark	.1025	9.7560
France	.1217	8.2175
Germany	.3701	2.7020
Italy	.0006111	1636.50
Japan	.004297	232.72
Mexico	.006079	164.50
Netherlands	.3304	3.0267
Switzerland	.4623	2.1633
U.K.	1.4580	.6859

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